

MARKET COMMENTARY

# Fixed income market review and outlook

February 2023



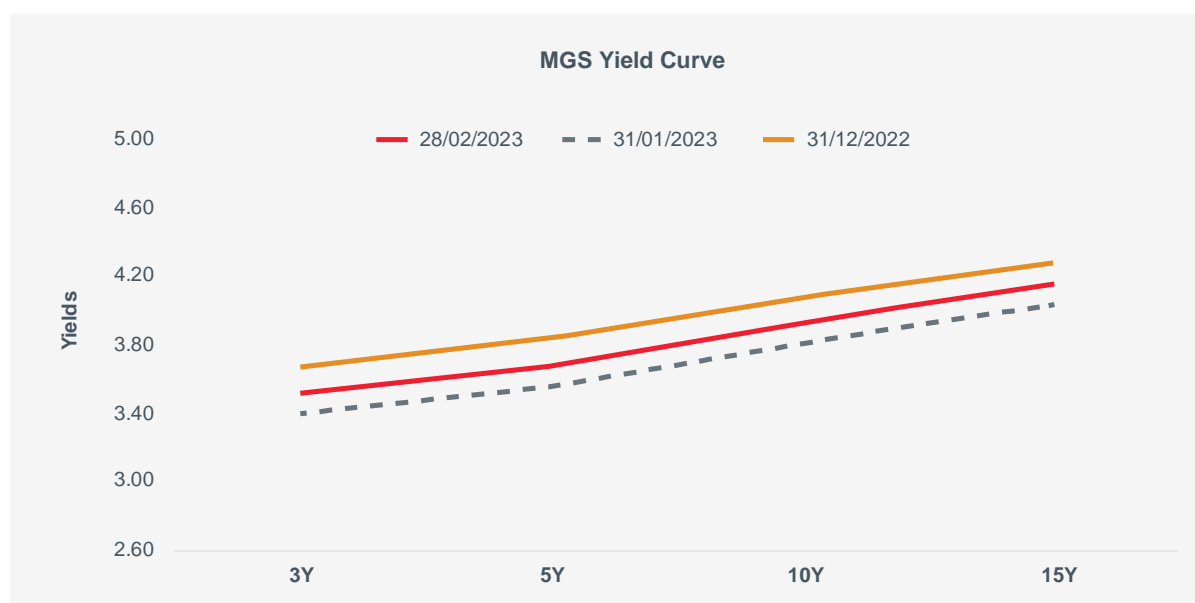
## Review

- ▶ Federal Reserve (“**Fed**”)’s preferred core Personal Consumption Expenditures (“**PCE**”) price index for January 2023 came in above expectations, rising by 4.7% YoY, above the upwardly revised 4.6% in December 2022. US PCE also increased by 5.4% YoY in January 2023, higher than the restated 5.3% in the previous month. These data coupled with the release of the Federal Open Market Committee (“**FOMC**”) minutes that still mentioned about “elevated inflationary pressures”, supported expectations that the fed funds rate will continue to move higher amidst inflation concerns.
- ▶ University of Michigan consumer sentiment index increased for the third month to 67.0 in February 2023 from 64.9, the highest level since January 2022. US Composite Purchasing Managers' Index (“**PMI**”) improved to 50.2 in February 2023 from 46.8 in January 2023, mainly due to an improvement in U.S. Services PMI which recorded a reading of 50.5 from 46.8 in the previous month. US Manufacturing PMI also recorded an increase to 47.3 in February 2023 (January 2023: 46.9).
- ▶ The Eurozone’s composite PMI continued its trend of improvement to 52.3 in February 2023, from 50.3 in the previous month mainly due to higher Services PMI which rose to 53.0 in February 2023 from 50.8 in the previous month. Inflation in France rebounded to 6.2% in February 2023 (January 2023: 6.0%), while Spanish consumer prices recorded a growth of 6.1% in February 2023 (January 2023 : 5.9%). However, Eurozone inflation rate inched lower to 8.5% in February 2023 from 8.6% in January 2023. Meanwhile, U.K. composite PMI also recorded an expansion in February, rising to 53.0 from 48.5 the previous month, also contributed mainly by improved Services PMI. The U.K. economy avoided a technical recession as it recorded zero growth in the fourth quarter of 2022 compared to a decline of 0.2% in the previous quarter.
- ▶ Bank of England (“**BoE**”) and the European Central Bank (“**ECB**”) will have their respective Monetary Policy Committee meetings in March to decide further on any rate hikes. The Reserve Bank of Australia (“**RBA**”) decided to increase the cash rate target by 25 basis points to 3.35%, citing expectations “that further increases in interest rates will be needed over the months ahead to ensure that inflation returns to target and that this period of high inflation is only temporary”. In Asia, while Bank Indonesia decided to hold the BI 7-Day Reverse Repo Rate at 5.75%, the central bank of the Philippines raised the interest rate on its overnight reverse repurchase facility by 50 basis points to 6.0%. Malaysia and the Philippines do not have any meetings in February.
- ▶ The People’s Bank of China (“**PBOC**”) left its 1- and 5-year loan prime rate unchanged at 3.65% and 4.30% respectively. At the time of writing, China has not released its exports, imports, retail sales, industrial production and fixed-asset investment figures for January 2023. China’s consumer price index (“**CPI**”) accelerated at 2.1% YoY in January 2023 (Dec: 1.8% YoY) due to the Lunar New Year holiday and the easing of Covid-19 restrictions.
- ▶ Malaysia’s Prime Minister re-tabled an expansionary Budget 2023 entitled “Developing Malaysia MADANI” focused on the economy, institutional reform and social justice. The total allocation is revised upward to RM386.1 billion versus RM372.3 billion tabled by the previous government in October 2022. 2023 GDP is expected to grow at 4.5%, while inflation is expected to range between 2.8%-3.8% in 2023, which is wider than the 2.8-3.3% in the October 2022 budget. In line with the government’s commitment to fiscal consolidation, the fiscal deficit is expected to be at a lower 5.0% of GDP and forecasted to narrow to 3.2% of GDP by 2025. The government ended the speculation of the implementation of Goods & Services Tax (“**GST**”), but introduced instead a Luxury Goods Tax in 2023, although there are no details yet on the value and type of goods to be taxed, nor the tax rate. Capital Gains Tax on the disposal of unlisted shares is planned for implementation in 2024.
- ▶ Bank Negara Malaysia’s international reserves rose by US\$0.6bn to US\$115.2bn as of 31 January 2023. The reserves position is sufficient to finance 5.3 months of imports of goods and services and is 1x the total short-term external debt. Malaysia’s inflation in January 2023 eased to 3.7% as compared to 3.8% in December 2022. The main contributor to the rise in inflation are Restaurants & Hotels (6.8%), Food & Non-Alcoholic Beverages (6.7%) and Transportation (4.0%). Meanwhile, core inflation recorded a slower rate of increase at 3.9% in January 2023 (Dec 2022: 4.1%). Malaysia’s full year 2022 GDP growth came in strong at 8.7%.

- Four auctions were held in February 2023, the re-opening of the 7Y MGS 04/30, a new issue of 20.5Y MGII 08/43, the re-opening of the 3Y MGS 07/26 and the re-opening of the 15Y Sustainability MGII 03/38. The auctions received an average bid-to-cover ratio of 2.200x.
  - RM5.0b re-opening 7-year MGS averaging 3.656% at a bid-to-cover ratio of 2.460x;
  - RM2.5b new issue of 20.5-year MGII averaging 4.291% at a bid-to-cover ratio of 2.662x;
  - RM5.5b re-opening 3-year MGS averaging 3.458% at a bid-to-cover ratio of 1.691x; and
  - RM3.5b re-opening of 15-year Sustainability MGII averaging 4.177% at a bid-to-cover ratio of 1.986x.
- Malaysia's MGS curve shifted higher in the month of February 2023. The yields of the 3-, 5-, 10- and 15-year MGS increased by 13 bps, 11 bps, 11 bps and 13 bps to close the month at 3.52%, 3.67%, 3.91% and 4.16% respectively. The yields of MGII also followed a similar trend with the 3-, 5-, 10- and 15-year MGII rising by 1 bp, 3 bps, 5 bps and 16 bps to end the month at 3.47%, 3.62%, 4.00% and 4.18% respectively.

BENCHMARK	Dec 2022 Yield	Jan 2023 Yield	Feb 2023 Yield	MOM Change	YTD Change
3-year MGS	3.67%	3.39%	3.52%	13 bps	- 15 bps
5-year MGS	3.84%	3.55%	3.67%	11 bps	- 18 bps
10-year MGS	4.07%	3.80%	3.91%	11 bps	- 16 bps
15-year MGS	4.26%	4.04%	4.16%	13 bps	- 10 bps

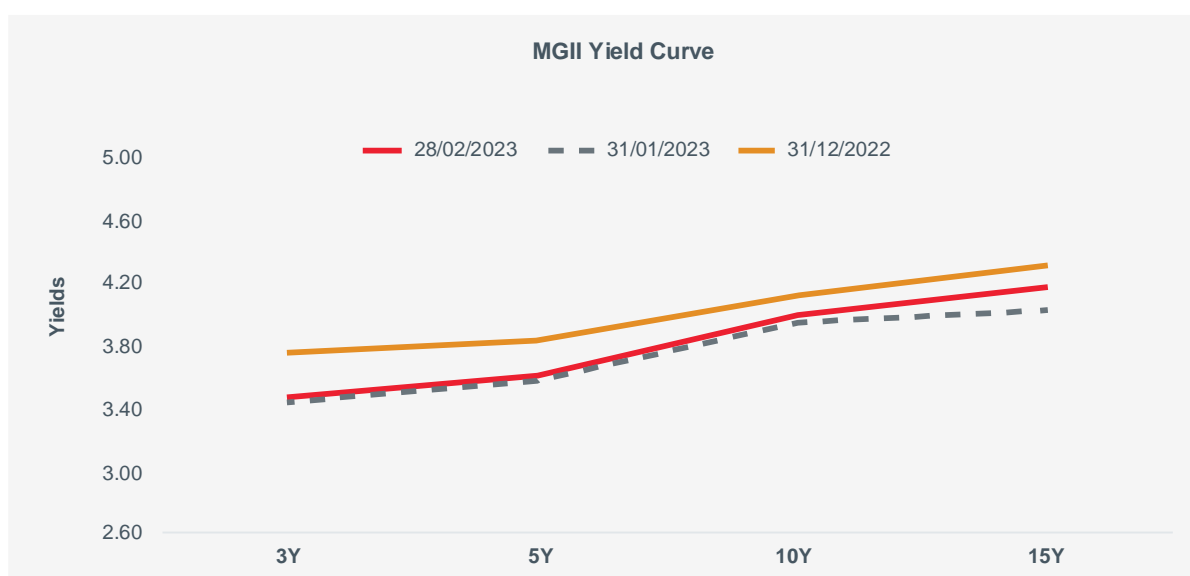
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2022 Yield	Jan 2023 Yield	Feb 2023 Yield	MOM Change	YTD Change
3-year MGII	3.76%	3.46%	3.47%	1 bps	- 29 bps
5-year MGII	3.85%	3.59%	3.62%	3 bps	- 23 bps
10-year MGII	4.13%	3.95%	4.00%	5 bps	- 13 bps
15-year MGII	4.31%	4.02%	4.18%	16 bps	- 13 bps

Source: Bloomberg



Source: Bloomberg

## Outlook

- › Inflation pressures remain elevated especially in the US, with issues of supply chain bottlenecks not fully resolved, the ongoing Russia-Ukraine war and China's reopening boosting demand. Hence, there is growing expectations that the Fed may continue to hike rates in 2023 and keep rates steady at least well into 2024.
- › China's re-opening and easing of travel restrictions continues and is expected to alleviate supply chain concerns and have a widespread impact on sectors such as tourism, aviation and luxury goods as Chinese consumers increase spending and traveling.
- › For Malaysia, BNM's next decision on the OPR in March 2023 will be closely watched. The decision will be data dependent as the central bank assesses the sustainability of the current growth momentum, given the risks of a recession especially in developed economies.
- › There will be three auctions in the month of March 2023, with the re-opening of the 10Y MGS 07/32, the re-opening of 7Y MGII 09/30 and the new issue of the 30Y MGS 03/53. While there is still ample liquidity in the system, the outcome of these auctions is likely to be influenced by prevailing market sentiment. On the corporate front, we expect mixed demand for corporate bonds as investors continue to be selective in their investments.

**Table 1: Indicative Rates (%)**

	28-Feb-23
MBB O/N*	1.10
MBB 1-Week*	1.20
MBB 1-Mth FD*	2.45
MBB 6-Mth FD*	2.80
MBB 1-Year FD*	2.85
1-mth BNM MN	2.82
3-mth BNM MN	2.94
3-mth KLIBOR	3.63
<b>CP</b>	
1-mth (P1)	3.78
3-mth (P1)	3.95

**Source:** Bloomberg/Bondstream

\* Maybank2u.com.my

**Table 2: Indicative Bond Yields (%)**

	3yr	5yr	7yr	10yr	15yr
<b>MGS</b>	3.46	3.70	3.81	3.95	4.16
<b>GII</b>	3.49	3.51	3.87	4.02	4.19
<b>Swap rate*</b>	3.63	3.73	3.84	3.97	4.22
<b>AAA</b>	4.04	4.17	4.29	4.43	4.63
<b>AA1</b>	4.16	4.29	4.45	4.61	4.83
<b>AA2</b>	4.26	4.41	4.61	4.79	5.03
<b>AA3</b>	4.36	4.53	4.77	4.98	5.22
<b>A1</b>	5.03	5.35	5.63	5.89	6.19
<b>A2</b>	5.62	6.01	6.39	6.81	7.24
<b>A3</b>	6.20	6.69	7.14	7.71	8.29

Source: Bloomberg\*/Bondstream

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